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FALCONBRIDGE
NICKEL MINES LIMITED

INTERIM REPORT
TO THE
SHAREHOLDERS

SIX MONTHS ENDED JUNE 30, 1976

FALCONBRIDGE NICKEL MINES LIMITED

and its subsidiaries

CONSOLIDATED STATEMENTS

(Unaudited – 000's omitted)

| | 1976 | | 1975 | |
|---------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | Three months ended | | First six months | First six months |
| | March 31 | June 30 | | |
| | (note) | | | (note) |
| METAL DELIVERIES (pounds): | | | | |
| Integrated nickel operations – | | | | |
| Nickel | 21,281 | 16,843 | 38,124 | 31,822 |
| Copper | 5,017 | 7,929 | 12,946 | 21,603 |
| Cobalt | 742 | 552 | 1,294 | 787 |
| Falconbridge Copper Limited – | | | | |
| Copper | 20,826 | 21,575 | 42,401 | 38,561 |
| Zinc | 19,380 | 21,166 | 40,546 | 37,195 |
| Falconbridge Nickel Mines Limited – | | | | |
| Ferronickel (deliveries to customers) | 9,310 | 12,735 | 22,045 | 24,835 |
| EARNINGS: | | | | |
| Revenues – | | | | |
| From metals and other products | \$ 104,495 | \$ 112,576 | \$ 217,071 | \$ 203,060 |
| Interest, investment and other income | 2,103 | 2,163 | 4,266 | 9,617 |
| | <u>106,598</u> | <u>114,739</u> | <u>✓ 221,337</u> | <u>✓ 212,677</u> |
| Expenses – | | | | |
| Costs other than the undermentioned | 85,651 | 84,807 | 170,458 | 155,946 |
| Depreciation, depletion, development and preproduction written off | 13,191 | 13,145 | 26,336 | 26,835 |
| Exploration, research and process development | 2,228 | 2,637 | 4,865 | 7,240 |
| Interest and amortization of debt expenses | 6,186 | 6,104 | 12,290 | 13,044 |
| Income and mining taxes | 39 | 1,739 | 1,778 | 3,293 |
| Minority interest in earnings of subsidiaries | 94 | 2,603 | 2,697 | 2,090 |
| | <u>107,389</u> | <u>111,035</u> | <u>218,424</u> | <u>208,448</u> |
| Earnings (loss) for the period | <u>\$ (791)</u> | <u>\$ 3,704</u> | <u>✓ \$ 2,913</u> | <u>✓ \$ 4,229</u> |
| Earnings (loss) per share | <u>(16)¢</u> | <u>75¢</u> | <u>✓ 59¢</u> | <u>✓ 85¢</u> |
| EARNINGS (LOSS) CONTRIBUTIONS: | | | | |
| Integrated nickel operations | \$ 439 | \$ 174 | \$ 613 | \$ (750) |
| Falconbridge Copper Limited | 109 | 1,418 | 1,527 | 398 |
| Falconbridge Dominicana, C. por A. | (344) | 1,279 | 935 | 2,486 |
| Other consolidated subsidiaries | (601) | 909 | 308 | 1,593 |
| Corporate | (394) | (76) | (470) | 502 |
| | <u>\$ (791)</u> | <u>\$ 3,704</u> | <u>\$ 2,913</u> | <u>\$ 4,229</u> |
| CHANGES IN FINANCIAL POSITION: | | | | |
| Sources of working capital (funds) – | | | | |
| Earnings (adjusted for items entering into the determination of earnings which neither use nor provide funds) | \$ 7,685 | \$ 18,486 | \$ 26,171 | \$ 33,516 |
| Proceeds from the sale of assets | 1,234 | 2,903 | 4,137 | 363 |
| Issue of shares for cash | – | 75 | 75 | 115 |
| | <u>8,919</u> | <u>21,464</u> | <u>30,383</u> | <u>33,994</u> |
| Applications of working capital – | | | | |
| Property, plant, equipment and development and preproduction | 10,352 | 10,215 | 20,567 | 30,499 |
| Long-term debt | 10,286 | 10,472 | 20,758 | 7,857 |
| Dividend payments to company shareholders | 1,240 | 1,241 | 2,481 | 2,479 |
| Other assets | 1,601 | (937) | 664 | 1,334 |
| Increase (decrease) in investment in associated and other companies | 62 | (57) | 5 | (817) |
| | <u>23,541</u> | <u>20,934</u> | <u>44,475</u> | <u>41,352</u> |
| Increase (decrease) in working capital | <u>(14,622)</u> | <u>530</u> | <u>(14,092)</u> | <u>(7,358)</u> |
| Working capital, beginning of period | 161,883 | 147,261 | 161,883 | 193,248 |
| Working capital, end of period | <u>\$ 147,261</u> | <u>\$ 147,791</u> | <u>\$ 147,791</u> | <u>\$ 185,890</u> |

Note:

A sale of shareholdings, in April, 1976, has necessitated a change in accounting for the company's investment in Alminex Limited. This investment, which was previously reflected in the accounts as a fully consolidated subsidiary, is now accounted for on the equity basis. For comparative purposes prior periods have been restated.

TO THE SHAREHOLDERS

Consolidated earnings of Falconbridge Nickel Mines Limited and its subsidiaries for the three months ended June 30, 1976 were \$3,704,000, or 75 cents per share – the highest quarterly total since the second quarter of 1974. Higher metal prices and increased operating efficiencies were the principal factors in the improvement over the results of the first quarter of 1976. The strength of the Canadian dollar is adversely affecting companies with substantial export business, otherwise the improvement in financial results would have been greater. In the Integrated Nickel Operations alone, the movement of the Canadian dollar from a discount to a premium relative to the United States dollar reduced revenues by about 5 cents per pound of nickel in the first half of 1976 compared with last year's first-half revenues.

Consolidated earnings for the six months ended June 30, 1976 were \$2,913,000 or 59 cents per share, compared with \$4,229,000 or 85 cents per share in the corresponding period of 1975. Contributions from the Integrated Nickel Operations and Falconbridge Copper Limited were higher in 1976, reflecting better metal prices and improved operating efficiencies as well as higher deliveries of nickel to customers. The contribution from Falconbridge Dominicana, C. por A. was lower, due to a reduced level of ferronickel deliveries to customers. The aggregate contribution of other subsidiaries was adversely affected by a variety of circumstances, including the world-wide economic recession.

Consolidated working capital at June 30, 1976 amounted to \$147,791,000, a decrease of \$14,092,000 since the first of the year. Capital expenditures of \$20,567,000, reductions of long-term debt of \$20,758,000 and dividends to shareholders of \$2,481,000 were, in the aggregate, in excess of funds generated from operations and other sources.

On July 20, 1976 at a Special General Meeting, shareholders authorized amendment of the Articles of the Corporation by designating its 7,000,000 issued and unissued shares without par value as common shares; and by increasing its authorized capital by the creation of 3,000,000 special shares, designated as preference shares, of the par value of \$25.00 each, issuable in series.

Arrangements have been concluded for a Canadian chartered bank to purchase up to \$30,000,000 par value of the preference shares in the event that outside funds are required to complete the smelter environmental improvement program and certain other capital programs.

On July 29th the company announced the reactivation of two major projects: the \$95-million smelter environmental improvement program at Falconbridge, Ontario and the completion of sinking of the Fraser shaft, on the north rim of the Sudbury Basin. Work on these projects was suspended in November, 1975 as part of a program cutback at Sudbury Operations.

MARSH A. COOPER,
President and Managing Director

Toronto, Ontario
August 3, 1976.

FALCONBRIDGE NICKEL MINES LIMITED

P.O. BOX 40, COMMERCE COURT WEST
TORONTO, ONTARIO, CANADA
M5L 1B4

AR44



**FALCONBRIDGE
NICKEL MINES LIMITED**

**INTERIM REPORT
TO THE SHAREHOLDERS**

FALCONBRIDGE NICKEL MINES LIMITED

P.O. BOX 40, COMMERCE COURT WEST
TORONTO, ONTARIO, CANADA M5L 1B4

**SIX MONTHS ENDED
JUNE 30, 1977**

FALCONBRIDGE NICKEL MINES LIMITED

and its subsidiaries

CONSOLIDATED STATEMENTS

(Unaudited – 000's omitted)

| | 1977 | | 1976 |
|-----------------------------------------------------------------------------|--------------------------------|----------------|------------------------|
| | Three months ended March 31 | June 30 | First six months |
| EARNINGS: | | | |
| Revenues – | | | |
| From metals and other products | \$ 111,531 | \$ 109,392 | \$ 220,923 |
| Interest, investment and other income | 2,088 | 2,212 | 4,300 |
| | <u>113,619</u> | <u>111,604</u> | <u>225,223</u> |
| Expenses – | | | |
| Costs other than the undermentioned | 83,660 | 85,241 | 168,901 |
| Depreciation, depletion, development and preproduction written off | 12,248 | 12,196 | 24,444 |
| Exploration, research and process development | 3,015 | 3,490 | 6,505 |
| Interest and amortization of debt expenses | 5,943 | 6,724 | 12,667 |
| Income and mining taxes | 2,993 | 3,964 | 6,957 |
| Minority interest in earnings of subsidiaries | 2,808 | 2,110 | 4,918 |
| | <u>110,667</u> | <u>113,725</u> | <u>224,392</u> |
| Earnings (loss) for the period | \$ 2,952 | \$ (2,121) | \$ 831 |
| Earnings (loss) per share | <u>59¢</u> | <u>(42)¢</u> | <u>17¢</u> |

EARNINGS (LOSS) CONTRIBUTIONS:

| | | | | |
|----------------------------------------------------------------|-----------------|-------------------|----------------|-----------------|
| Alminex Limited | \$ 947 | \$ 957 | \$ 1,904 | \$ 1,516 |
| Falconbridge Copper Limited | 1,508 | 500 | 2,008 | 1,527 |
| Falconbridge Dominicana, C. por A. | 2,201 | 2,473 | 4,674 | 935 |
| Indusmin Limited | (53) | 524 | 471 | 753 |
| Oamites Mining Company (Proprietary) Limited | 123 | (104) | 19 | 214 |
| United Keno Hill Mines Limited | 178 | 182 | 360 | 710 |
| Wesfrob Mines Limited | 131 | (587) | (456) | (532) |
| Other controlled companies | 44 | 164 | 208 | (127) |
| Total | <u>5,079</u> | <u>4,109</u> | <u>9,188</u> | <u>4,996</u> |
| Unallocated corporate | <u>(822)</u> | <u>(2,893)</u> | <u>(3,715)</u> | <u>(2,696)</u> |
| | 4,257 | 1,216 | 5,473 | 2,300 |
| Integrated nickel operations, net of allocated corporate costs | <u>(1,305)</u> | <u>(3,337)</u> | <u>(4,642)</u> | <u>613</u> |
| | <u>\$ 2,952</u> | <u>\$ (2,121)</u> | <u>\$ 831</u> | <u>\$ 2,913</u> |

FINANCIAL POSITION:

| | As at June 30, 1977 | Increase (decrease) from Dec. 31, 1976 |
|----------------------------------------------------------------|---------------------------|-------------------------------------------------|
| Current assets — | | |
| Cash and temporary investments | \$ 27,986 | \$ (21,036) |
| Receivables | 113,004 | (9,656) |
| Inventories of metals and supplies | 125,210 | 44,301 |
| Total | 266,200 | 13,609 |
| Current liabilities — | | |
| Long-term debt maturing within one year | 16,466 | (14,304) |
| Other | 97,673 | 27,935 |
| Total | 114,139 | 13,631 |
| Working capital | 152,061 | (22) |
| Property, plant and equipment — | | |
| Producing | 294,643 | 39,426 |
| Non-producing | 139,648 | (28,006) |
| Other assets | 61,505 | 982 |
| Total assets less current liabilities | 647,857 | 12,380 |
| Deduct: | | |
| Long-term debt | 230,475 | 6,760 |
| Deferred income and mining taxes | 34,078 | 2,422 |
| Minority interest | 63,680 | 4,823 |
| | 328,233 | 14,005 |
| Excess of assets over liabilities — shareholders' equity | \$ 319,624 | \$ (1,625) |

CHANGES IN FINANCIAL POSITION:

| | For the six months ended June 30, | |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------|
| | 1977 | 1976 |
| Sources of working capital (funds) — | | |
| Earnings (adjusted for items entering into the determination of earnings which neither use nor provide funds) | \$ 30,173 | \$ 26,171 |
| Proceeds from the sale of assets | 2,485 | 4,137 |
| Issue of shares for cash | 37 | 75 |
| Bank loan | 12,000 | — |
| | 44,695 | 30,383 |
| Applications of working capital — | | |
| Property, plant, equipment and development and preproduction | 36,241 | 20,567 |
| Long-term debt | 5,240 | 20,758 |
| Dividend payments to company shareholders | 2,493 | 2,481 |
| Increase in investments and other assets | 743 | 669 |
| | 44,717 | 44,475 |
| Decrease in working capital | 22 | 14,092 |
| Working capital, beginning of period | 152,083 | 161,883 |
| Working capital, end of period | \$ 152,061 | \$ 147,791 |

TO THE SHAREHOLDERS

A consolidated loss of \$2,121,000, or 42 cents per share, for the three months ended June 30, 1977 compares with consolidated earnings of \$3,704,000, or 75 cents per share, for the corresponding period of 1976. For the first six months of 1977, consolidated earnings of \$831,000, or 17 cents per share, compare with consolidated earnings of \$2,913,000, or 59 cents per share, reported for the first six months of 1976.

Results for the first and second quarters of 1977, compared with the corresponding periods of 1976, have been adversely affected by lower overall deliveries of nickel and by the financing costs associated with carrying higher nickel inventories. The modest improvements which took place in metal prices were welcome, but their effect was not sufficient to offset the decline in volume.

Deliveries of electrolytic nickel and nickel in ferro-nickel for the first half of 1977 amounted to 49,164,000 pounds, compared with 60,169,000 pounds in the same period last year. New nickel producers in Australia, Philippines and the U.S.A. and other suppliers from Africa and East Bloc areas are currently marketing their nickel products at prices substantially below the published producer prices. The slack in world nickel demand, which began in 1975 and recovered slightly in 1976, is expected to continue at least through the balance of 1977 and current stocks held by customers are at a very high level. Consequently, the Company does not anticipate that 1977 deliveries will reach 1976 levels, nor does it expect any near-term improvement in the currently depressed producer prices for nickel.

A loss of \$4,642,000 by the Integrated Nickel Operations in the first six months of 1977 compares with earnings of \$613,000 in the corresponding period of 1976. The effect of a decrease in deliveries of electrolytic nickel was only partially offset by increased copper deliveries and higher nickel, copper and cobalt prices.

Falconbridge Copper Limited contributed \$2,008,000 to consolidated earnings in the first half of 1977, compared with \$1,527,000 in the first half of 1976, with increased copper and zinc production being the major factor.

Falconbridge Dominicana, C. por A. contributed \$4,674,000 to consolidated earnings in the first six

months of 1977, substantially above the \$935,000 contributed in last year's corresponding period. Higher ferromnickel prices and lower debt service charges were the principal reasons for the improvement.

Consolidated charges for income and mining taxes in the first half of 1977 were \$6,957,000, up sharply from the \$1,778,000 provided in the first half of 1976. The principal increases occurred in Falconbridge Dominicana and Falconbridge Copper—attributable, in both cases, to higher earnings.

Consolidated working capital at June 30, 1977 amounted to \$152,061,000, almost unchanged from the level at December 31, 1976. Capital expenditures in the first six months of 1977 were \$36,241,000, considerably higher than those in the corresponding period of 1976. The principal reason for this increase was the higher level of activity at the Company's smelter environmental improvement project at Sudbury.

In common with other producers, Falconbridge's inventories of nickel have grown to a level which is excessive in relation to current demand. Carrying these inventories has imposed a strain on the Company's financial resources and was a major factor in the decision to issue 1,200,000 of the Company's 3,000,000 authorized Variable Rate Cumulative Redeemable Preference Shares, Series "A", with a par value of \$25 each. The 1,200,000 Preference Shares were sold to a Canadian chartered bank for \$30,000,000; are retractable at the end of seven years and redeemable at the Company's option after 30 days' notice; and have a cumulative floating rate dividend (5.625 per cent at the date of issue, August 3, 1977). The dividend rate is calculated on a quarterly basis, equal to half the Canadian bank's prime rate, plus 1.5 per cent. Arrangements have been made with the same Canadian chartered bank to purchase the remaining 1,800,000 authorized preference shares, for \$45,000,000, in the near future when all further necessary corporate and government authorizations have been received.

94,669,000
60,169,000
34,500,000

MARSH A. COOPER,
President and Managing Director

Toronto, Ontario.
August 5, 1977.

64,397,000
49,161,000
15,236,000

AR44



**FALCONBRIDGE
NICKEL MINES LIMITED**

**INTERIM REPORT
TO THE SHAREHOLDERS**



FALCONBRIDGE NICKEL MINES LIMITED

P.O. BOX 40, COMMERCE COURT WEST
TORONTO, ONTARIO, CANADA M5L 1B4

**SIX MONTHS ENDED
JUNE 30, 1978**

FALCONBRIDGE NICKEL MINES LIMITED

CONSOLIDATED STATEMENTS

(Unaudited – 000's omitted)

| | 1978 | | 1977 |
|----------------------------------------------------------------|--------------------------------|---------------|----------------------------------|
| | Three months ended March 31 | June 30 | First six months (note) |
| METAL SALES (pounds): | | | |
| Integrated nickel operations – | | | |
| Nickel | 13,746 | 20,977 | 34,723 |
| Copper | 6,647 | 7,096 | 13,743 |
| Cobalt | 389 | 254 | 643 |
| Falconbridge Copper Limited – | | | |
| Copper | 22,196 | 20,522 | 42,718 |
| Zinc | 19,060 | 23,550 | 42,610 |
| Falconbridge Nickel Mines Limited – | | | |
| Ferronickel | 5,919 | 12,344 | 18,263 |
| INVENTORY OF FINISHED NICKEL – ALL FORMS (pounds) | 78,487 | 65,340 | 65,340 |
| | | | 38,950 |

EARNINGS:

| | | | | |
|-----------------------------------------------------------------------------|-------------------|----------------|-------------------|----------------|
| Revenues from metals and other products | \$ 93,012 | \$ 129,508 | \$ 222,520 | \$ 217,962 |
| Interest, investment and other income | 3,092 | 2,301 | 5,393 | 4,300 |
| | <u>96,104</u> | <u>131,809</u> | <u>227,913</u> | <u>222,262</u> |
| Costs other than the undermentioned | 78,123 | 105,683 | 183,806 | 166,004 |
| Depreciation, depletion, development and preproduction written off | 9,534 | 9,516 | 19,050 | 24,444 |
| Non-recurring charges | — | — | — | 675 |
| Exploration, research and process development | 2,601 | 2,392 | 4,993 | 6,505 |
| Interest and amortization of debt expenses | 7,874 | 8,249 | 16,123 | 12,667 |
| Income and mining taxes | 391 | 2,689 | 3,080 | 6,821 |
| Minority interest in earnings of subsidiaries | 238 | 1,352 | 1,590 | 4,918 |
| | <u>98,761</u> | <u>129,881</u> | <u>228,642</u> | <u>222,034</u> |
| EARNINGS (LOSS) FOR THE PERIOD | (2,657) | 1,928 | (729) | 228 |
| Dividend requirement on preference shares | 1,052 | 1,143 | 2,495 | — |
| Earnings (loss) applicable to convertible shares | <u>\$ (3,709)</u> | <u>\$ 785</u> | <u>\$ (2,924)</u> | <u>\$ 228</u> |
| Earnings (loss) per convertible share | <u>(75)¢</u> | <u>16¢</u> | <u>(59)¢</u> | <u>4¢</u> |

EARNINGS (LOSS) CONTRIBUTIONS:

| | | | | |
|----------------------------------------------------------------------|-------------------|----------------|-------------------|----------------|
| Alminex Limited | \$ — | \$ — | \$ — | \$ 1,904 |
| Falconbridge Copper Limited | 471 | 1,128 | 1,599 | 2,008 |
| Falconbridge Dominicana, C. por A. | (1,144) | (1,007) | (2,151) | 4,674 |
| Indusmin Limited | 118 | 642 | 760 | 471 |
| Oamites Mining Company (Proprietary) Limited | (87) | 182 | 95 | 19 |
| United Keno Hill Mines Limited | 445 | 329 | 774 | 360 |
| Wesfrob Mines Limited | (127) | 247 | 120 | (456) |
| Other controlled companies | 121 | 70 | 191 | 208 |
| Total | <u>(203)</u> | <u>1,591</u> | <u>1,388</u> | <u>9,188</u> |
| Unallocated corporate (net) | <u>(1,768)</u> | <u>(1,945)</u> | <u>(3,713)</u> | <u>(3,715)</u> |
| | <u>(1,971)</u> | <u>(354)</u> | <u>(2,325)</u> | <u>5,473</u> |
| Integrated Nickel Operations, net of allocated corporate costs | <u>(686)</u> | <u>2,282</u> | <u>1,596</u> | <u>(5,245)</u> |
| EARNINGS (LOSS) FOR THE PERIOD | (2,657) | 1,928 | (729) | 228 |
| Dividend requirement on preference shares | 1,052 | 1,143 | 2,195 | — |
| Earnings (loss) applicable to convertible shares | <u>\$ (3,709)</u> | <u>\$ 785</u> | <u>\$ (2,924)</u> | <u>\$ 228</u> |

Note: To give effect to adjustments made at the 1977 year-end certain of the June 30, 1977 figures have been restated from those shown in the 1977 interim reports.

| | As at June 30, 1978 | Increase (decrease) from December 31, 1977 |
|----------------------------------------------------------------------------|---------------------------|--------------------------------------------------------|
| FINANCIAL POSITION: | | |
| Current assets – | | |
| Cash and temporary investments | \$ 78,813 | \$ (42,474) |
| Receivables | 93,135 | 10,354 |
| Inventories of metals and supplies | 157,245 | (11,066) |
| Total | 329,193 | (43,186) |
| Current liabilities – | | |
| Long-term debt maturing within one year | 3,957 | (9,295) |
| Other | 77,062 | (29,654) |
| Total | 81,019 | (38,949) |
| Working capital | 248,174 | (4,237) |
| Property, plant and equipment (net) – | | |
| Producing | 293,905 | (10,863) |
| Non-producing | 168,170 | 17,814 |
| Other assets | 61,236 | 586 |
| Total assets less current liabilities | 771,485 | 3,300 |
| Deduct: | | |
| Long-term debt | 297,784 | 6,390 |
| Deferred income and mining taxes | 28,489 | (1,664) |
| Minority interest | 65,009 | 1,498 |
| Preference shares | 75,000 | — |
| | 466,282 | 6,224 |
| Excess of assets over liabilities – convertible shareholders' equity | \$ 305,203 | \$ (2,924) |

| | For the six months ended June 30, | |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------|------------|
| | 1978 | 1977 |
| CHANGES IN FINANCIAL POSITION: | | |
| Sources of working capital (funds) – | | (note) |
| Earnings (adjusted for items entering into the determination of earnings which neither use nor provide funds) | \$ 17,378 | \$ 29,434 |
| Proceeds from the sale of assets | 916 | 2,485 |
| Issue of shares for cash | — | 37 |
| Bank loan | — | 12,000 |
| Reclassification of long-term debt maturing within one year | 7,828 | — |
| | 26,122 | 43,956 |
| Applications of working capital – | | |
| Property, plant, equipment and development and preproduction | 26,109 | 36,241 |
| Dividend payment to convertible shareholders | — | 2,482 |
| Dividend payment to preference shareholders | 2,195 | — |
| Increase in other assets | 617 | 743 |
| Reduction of long-term debt | 1,438 | 5,240 |
| | 30,359 | 44,706 |
| Decrease in working capital | 4,237 | 750 |
| Working capital, beginning of period | 252,411 | 152,083 |
| Working capital, end of period | \$ 248,174 | \$ 151,333 |

Note: To give effect to adjustments made at the 1977 year-end certain of the June 30, 1977 figures have been restated from those shown in the 1977 interim reports.

TO THE SHAREHOLDERS

Consolidated earnings of \$1,928,000 by Falconbridge Nickel Mines Limited for the three months ended June 30 reduced the loss for the first six months of 1978 to \$729,000 compared with earnings of \$228,000 in the corresponding period of 1977. The loss of 59 cents per convertible share in 1978, after recognizing the preference shareholders' dividend requirement of \$2,195,000, compares with earnings of 4 cents per share in 1977.

Earnings in the first half of 1978 from the Integrated Nickel Operations are \$6,841,000 better than in the same period of 1977, but this improvement is offset by a \$6,825,000 reduction in the contribution of Falconbridge Dominicana, C. por A. and the absence of a contribution from the investment in Alminex Limited which was sold in December of 1977. Alminex Limited had contributed \$1,904,000 to the first-half earnings in 1977.

Although demand for nickel improved during the second quarter, competition in international nickel markets continued to be severe. Prices deteriorated significantly, particularly during the latter part of the second quarter.

Following the traditional summer slowdown, nickel shipments are expected to continue firm through the remainder of 1978. Prices will remain under pressure because of the substantial inventories held by producers.

The Integrated Nickel Operations' earnings contribution of \$1,596,000 for the first six months of 1978 compares to a loss contribution of \$5,245,000 in 1977. The effects of an increase in sales of electrolytic nickel, higher cobalt selling prices and the favourable impact of the weak Canadian dollar, relative to the U.S. dollar, on sales revenues were offset by reduced copper sales, lower nickel and copper selling prices and increased unit production costs. Electrolytic nickel sales of 34,723,000 pounds are 14,842,000 pounds higher than a year ago; however, copper sales of 13,743,000 pounds are 7,481,000 pounds lower, reflecting the Sudbury production cutbacks. Depreciation, depletion, development and preproduction write-offs in 1978 are considerably lower than in 1977, as a result of the change in amortization rates which were revised on July 1, 1977, to reflect the changes in the estimated economic lives of the assets.

In the new Sudbury smelter one of the two roaster-electric furnace lines was operated satisfactorily along with the acid plant during the first week of July, 1978.

Negotiations are in progress on a new collective agreement with the Sudbury Mine, Mill and Smelter Workers' Union, Local 598 (the Production and Maintenance employees in the Sudbury Operations). The existing three-year agreement expires on August 21, 1978.

The extended summer shutdowns at the Company's Sudbury Operations and at the refinery in Norway were implemented in July as part of the previously announced production cutback.

Falconbridge Dominicana, C. por A.'s loss contribution of \$2,151,000 for the first six months of 1978 compares to an earnings contribution of \$4,674,000 for the same period of 1977. The decreased contribution results mainly from a decline in ferronickel sales, from 27,888,000 pounds in 1977 to 18,263,000 pounds in 1978, a deterioration in the ferronickel selling price and higher unit production costs associated with the reduced rate of production.

In consideration of an increase in the interest rate from 8.5% to 8.73% on its Series C demand mortgage notes, Falconbridge Dominicana has arranged with the Institutional Lenders to defer the 1978 and 1979 semi-annual principal payments aggregating US \$15,240,000. Commencing in 1981, this deferment will become due in twelve semi-annual instalments of US \$1,270,000.

Falconbridge Copper Limited's first-half earnings contribution of \$1,599,000 for 1978 was \$409,000 lower than that of a year ago. This reduction was mainly attributable to higher operating costs and a reduced share of the profits from the Sturgeon Lake Joint Venture, occurring after recoupment of the original investment. Lower copper and zinc production and prices were offset by higher gold production and increased gold and silver prices.

Wesfrob Mines Limited has contributed \$120,000 to consolidated earnings to date in 1978 which compares with a loss of \$456,000 in the same period of 1977 when production was considerably lower.

Consolidated working capital at June 30, 1978 of \$248,174,000 reflects a decrease of \$4,237,000 in the first six months of the current year. Funds generated from operations, proceeds from the sale of assets and the reclassification to long-term debt of amounts previously recorded as maturing within one year amounted to \$26,122,000. Funds applied totalled \$30,359,000 and include property, plant, equipment and development and preproduction expenditures of \$26,109,000, dividend payments to preference shareholders of \$2,195,000 and other applications of \$2,055,000. Expenditures on the Company's Sudbury smelter environmental improvement project, the largest single user of funds over the past few years, are more than 90 per cent complete. Consolidated cash and temporary investments balances of \$78,813,000 are \$42,474,000 lower than at the beginning of the year, mainly as a result of capital expenditures and reductions in current liabilities in excess of cash generated in the first half of 1978.

MARSH A. COOPER
President and Managing Director

Toronto, Ontario,
August 3, 1978.